

## Message Text

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12

ACTION EA-10

INFO OCT-01 EUR-12 NEA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 FEA-01 /091 W

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R 100944Z FEB 75

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 3792

INFO AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY SEOUL

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

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PASS TREASURY AND FEDERAL RESERVE BANK

E.O. 11652: N/A

TAGS: EFIN, HK, KU

SUBJ: HONG KONG AND OIL MONEY

REF: A) KUWAIT 566 B) HK A-281 C) HK A-197

1. ALTHOUGH THERE HAS BEEN MUCH DISCUSSION ABOUT THE IMPACT OF ARAB OIL MONEY IN HONG KONG, AS ELSEWHERE, VERY LITTLE HAS HAPPENED. THIS MATTER CAN BE LOOKED AT FROM TWO POINTS OF VIEW:

- A) HONG KONG AS A PLACE IN WHICH TO INVEST, AND
- B) HONG KONG AS A BASE FROM WHICH TO INVEST IN THE REGION.

2. THE LOCAL CONSENSUS IS THAT VERY LITTLE "OIL" MONEY HAS COME TO HONG KONG. ALTHOUGH THE COLONY HAS CONNECTIONS TO THE MIDDLE EAST THROUGH THE COMMON LINK TO BRITISH FINANCIAL INSTITUTIONS, (E.G., THE HONG KONG BANK OWNS THE BRITISH BANK OF

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THE MIDDLE EAST) THERE ARE FEW READILY AVAILABLE OUTLETS FOR

SUBSTANTIAL LOW RISK INVESTMENTS. BANK DEPOSITS CARRY LOWER INTEREST RATES THAN NEW YORK OR LONDON AND THE GOVERNMENT DOES NOT SELL SECURITIES. THE ONLY OTHER SECTOR WOULD BE REAL ESTATE. BUT THE MARKET IS NOW DEPRESSED AND FEW NEW LARGE PROJECTS ARE UNDER CONSIDERATION. ONE IMPORTANT POSSIBILITY FOR THE FUTURE WOULD BE LOANS TO THE MASS TRANSIT AUTHORITY'S BILLION DOLLAR SUBWAY PROJECT.

3. POTENTIALLY, HONG KONG COULD SERVE AS A BASE FOR LENDING IN THE REGION. MANY FINANCIAL INSTITUTIONS HAVE ESTABLISHED OFFICES IN THE PAST FEW YEARS AS THE ATTRACTIVENESS OF THE ASIA-PACIFIC AREA AS A PLACE TO INVEST HAS BECOME BETTER KNOWN. A FINANCE COMPANY CAN BE SET UP FOR THE PRICE OF REGISTRATION, (\$100), TAXES ARE LOW (15 PERCENT) AND THE GOVERNMENT'S ATTITUDE BENIGN. ON THE OTHER HAND, COMMERCIAL BANKING LICENSES ARE NEXT TO IMPOSSIBLE TO OBTAIN AND FEWER POSSIBILITIES OF BUYING INTO LOCAL COMMERCIAL BANKS EXIST ALTHOUGH HKG ENCOURAGES THIS.

4. TWO INSTITUTIONS ASSOCIATED WITH ARAB INTERESTS WERE ESTABLISHED IN 1974. ONE IS THE ARAB-JAPANESE FINANCE LTD. (UBAN) OWNED BY UBAF-UNION DES BANQUES ARABES ET FRANCAISES. THE CHAIRMAN OF UBAN IS HUSSEIN MAKKI AL JUMA, MANAGING DIRECTOR OF ALAHLI BANK OF KUWAIT (SEE REFS.). THE OTHER IS BCCI WHICH IS AN AFFILIATE OF A LUXEMBOURG BASED BANK IN WHICH THE BANK OF AMERICA HAS A 27.5 PERCENT SHARE. THE REST IS OWNED BY INDIVIDUALS FROM ABU DHABI, DUBAI, KUWAIT, SAUDI ARABIA AND IRAN. RE KUWAITI ACTIVITIES (REF.A), THE BANK BRANCH PROBABLY REFERS TO UBAN. IN REGARD TO A POSSIBLE JOINT VENTURE WITH JAPANESE AND AUSTRALIAN INVESTORS, THERE IS NO INDICATION FROM JAPANESE SOURCES THAT ANY SUCH PROJECT IS BEING CONSIDERED.

5. THE BEST PROSPECTS FOR LENDING IN THE REGION WOULD BE TO GOVERNMENTS AND GOVERNMENT CORPORATIONS. FOR EXAMPLE, THE KOREAN DEVELOPMENT BANK IS VERY MUCH INTERESTED IN ARAB MONEY AFTER SELLING BONDS TO ABU DHABI LAST YEAR. OTHER LEADING CANDIDATES ARE JAPAN, MALAYSIA, AND THE PHILIPPINES.

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